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Agenda item 2

PREPARATION OF THE DRAFT FINAL REPORT

Draft final report of the Ad Hoc Working Group on Investment and Financial Flows

Amended text of Chapter III

III. AREAS FOR FURTHER INTERGOVERNMENTAL DISCUSSION

58. Without prejudging the fora where such discussions might occur, the Working Group identified some outstanding issues on foreign direct investment, foreign portfolio equity investment and asset-based financing techniques which were recommended for further analysis and consideration by UNCTAD or, where appropriate, by other international organizations. These issues comprise:

A. Foreign direct investment

(a)Effectiveness of host countries' investment promotion activities, including fiscal and financial incentives and debt equity swaps, and the potential discriminatory impact of these measures on domestic investors;

(b)Effectiveness of incentives and promotional measures adopted by home countries, including credit and investment insurance schemes, and the role of ODA in supporting host country investment efforts;

(c)Bilateral agreements on investment and on the avoidance of double taxation;

(d)Impact of regional and multilateral measures, including financing schemes and advisory services, on FDI flows and the complementarity of the various components of such measures;

(e)[]Situation of the LDCs and ways and means of improving their capacity to attract FDI.

B. Foreign portfolio equity investment

(a)Impact of portfolio equity flows on host and home country economies, especially on exchange rates and volatility of domestic stock markets, in the context of domestic resources mobilization, capital market development and financial liberalization;

(b)Appropriate capital market development and FPEI policies in host countries according to stages of economic development, giving due consideration to improving the domestic regulatory framework;

(c)Ways to improve listing opportunities on the stock markets and access to other sources of capital and institutional arrangements for small and medium-sized companies;

(d)Investment strategies of institutional investors and home countries' policies.

C. Asset-based financing techniques

(a)Financing techniques for BOT arrangements;

(b)Costs and benefits of BOT arrangements for developing countries and countries in transition.